



China Star Cultural Media Group Limited
中國星文化產業集團有限公司*

(formerly known as China Media and Films Holdings Limited 中國傳媒影視控股有限公司*)

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8172)

THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This announcement, for which the directors (the “Directors”) of China Star Cultural Media Group Limited (formerly known as China Media and Films Holdings Limited) (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this announcement misleading.

* For identification only

UNAUDITED QUARTERLY RESULTS

The board of Directors (the “Board”) of China Star Cultural Media Group Limited (formerly known as China Media and Films Holdings Limited) (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2014, together with the comparative unaudited figures for the corresponding periods in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Turnover	3	1,484	3,128	4,350	12,592
Cost of sales		(1,070)	(1,955)	(3,173)	(9,031)
Gross profit		414	1,173	1,177	3,561
Other revenue and other income	4	177	140	491	332
Gain on derecognition of convertible loan notes		—	1,935	—	1,935
Administrative expenses		(1,892)	(3,952)	(9,052)	(12,270)
Impairment loss recognised in respect of goodwill		—	—	(9)	—
Finance costs	5	—	(185)	—	(563)
Share of results of joint ventures		17	49	(630)	80
Gain on disposal of subsidiaries		—	—	5,261	—
Loss before tax	6	(1,284)	(840)	(2,762)	(6,925)
Income tax expense	7	—	—	—	—
Loss for the period		<u>(1,284)</u>	<u>(840)</u>	<u>(2,762)</u>	<u>(6,925)</u>
Loss for the period attributable to:					
Owners of the Company		(1,284)	(840)	(2,762)	(6,925)
Non-controlling interests		—	—	—	—
		<u>(1,284)</u>	<u>(840)</u>	<u>(2,762)</u>	<u>(6,925)</u>
Total comprehensive loss for the period attributable to:					
Owners of the Company		(1,284)	(840)	(2,762)	(6,925)
Non-controlling interests		—	—	—	—
		<u>(1,284)</u>	<u>(840)</u>	<u>(2,762)</u>	<u>(6,925)</u>
Dividend		—	—	—	—
Loss per share	8				
— Basic and diluted		<u>HK(0.14) cent</u>	<u>HK(0.17) cent</u>	<u>HK(0.40) cent</u>	<u>HK(1.37) cents</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company's shares have been listed on the GEM of the Stock Exchange since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Room 3407, 34/F Shun Tak Centre, West Tower, 168 – 200 Connaught Road Central, Hong Kong respectively.

The unaudited condensed consolidated statement of profit or loss and other comprehensive income (the "Unaudited Consolidated Results") are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its subsidiaries and joint ventures are provision of artist management services, and film production and distribution.

2. Basis of preparation and consolidation

The Unaudited Consolidated Results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. In addition, the Unaudited Consolidated Results include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the Unaudited Consolidated Results is the historical cost convention, as modified for the revaluation of certain financial instruments which are stated at their fair values.

The preparation of Unaudited Consolidated Results in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

All significant intercompany transactions, balances and unrealised gain on transaction within the Group have been eliminated on consolidation.

The accounting policies and basis of preparation adopted in the preparation of the Unaudited Consolidated Results are consistent with those adopted in annual financial statements for the year ended 31 December 2013.

3. Turnover

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) <i>HK\$'000</i>	2013 (Unaudited) <i>HK\$'000</i>	2014 (Unaudited) <i>HK\$'000</i>	2013 (Unaudited) <i>HK\$'000</i>
Artist management	<u>1,484</u>	<u>3,128</u>	<u>4,350</u>	<u>12,592</u>

4. Other revenue and other income

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) <i>HK\$'000</i>	2013 (Unaudited) <i>HK\$'000</i>	2014 (Unaudited) <i>HK\$'000</i>	2013 (Unaudited) <i>HK\$'000</i>
Bank interest income	114	80	302	140
Consultancy fee income	<u>63</u>	<u>60</u>	<u>189</u>	<u>192</u>
	<u>177</u>	<u>140</u>	<u>491</u>	<u>332</u>

5. Finance costs

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) <i>HK\$'000</i>	2013 (Unaudited) <i>HK\$'000</i>	2014 (Unaudited) <i>HK\$'000</i>	2013 (Unaudited) <i>HK\$'000</i>
Effective interest expenses on convertible loan notes	<u>—</u>	<u>185</u>	<u>—</u>	<u>563</u>

6. Loss before tax

Loss from operations has been arrived at after charging/(crediting):

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	2	131	134	392
Written off of property, plant and equipment	—	—	1,579	—
Minimum lease payments under operating leases on land and buildings	—	1,122	1,122	3,427
Staff costs including directors' remuneration				
— Salaries and allowances	162	1,773	3,213	5,767
— Pension scheme contribution	(15)	33	68	116
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. Income tax expense

No provision of Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses bought forward during the period under review. (2013: Nil).

8. Loss per share

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 30 September 2014 of approximately HK\$1,284,000 (2013: loss attributable to owners of the Company of approximately HK\$840,000) and loss attributable to owners of the Company for the nine months ended 30 September 2014 of approximately HK\$2,762,000 (2013: loss attributable to owners of the Company of approximately HK\$6,925,000) and weighted average of 905,649,726 shares in issue during the three months ended 30 September 2014 (2013: 505,649,726 shares) and weighed average of 684,038,004 shares in issue during the nine months ended 30 September 2014 (2013: 505,649,726 shares).

For the three months and nine months ended 30 September 2014 and 2013, diluted loss per share was not presented as the conversion of all outstanding convertible loan notes would have anti-dilutive effects.

9. Condensed consolidated statement of changes in equity

	Share capital	Share premium	Contributed surplus	Convertible loan notes reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013	5,056	47,383	28,294	2,381	(358)	82,756	—	82,756
Net loss for the period	—	—	—	—	(6,925)	(6,925)	—	(6,925)
Other comprehensive income for the period	—	—	—	—	—	—	—	—
Total comprehensive loss for the period	—	—	—	—	(6,925)	(6,925)	—	(6,925)
Recognition of the equity component of convertible loan notes	—	—	—	4,265	—	4,265	—	4,265
Transfer to accumulated losses upon extinguishment of old convertible loan notes	—	—	—	(2,381)	2,381	—	—	—
At 30 September 2013	<u>5,056</u>	<u>47,383</u>	<u>28,294</u>	<u>4,265</u>	<u>(4,902)</u>	<u>80,096</u>	<u>—</u>	<u>80,096</u>
At 1 January 2014	5,056	47,383	28,294	4,265	(10,805)	74,193	9	74,202
Net loss for the period	—	—	—	—	(2,762)	(2,762)	—	(2,762)
Other comprehensive income for the period	—	—	—	—	—	—	—	—
Total comprehensive loss for the period	—	—	—	—	(2,762)	(2,762)	—	(2,762)
Release of non-controlling interests upon disposal of subsidiaries	—	—	—	—	—	—	(9)	(9)
Placing of new shares	4,000	103,000	—	—	—	107,000	—	107,000
Share issue expenses	—	(3,806)	—	—	—	(3,806)	—	(3,806)
At 30 September 2014	<u>9,056</u>	<u>146,577</u>	<u>28,294</u>	<u>4,265</u>	<u>(13,567)</u>	<u>174,625</u>	<u>—</u>	<u>174,625</u>

DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2014 (2013: Nil).

CHANGE IN DIRECTORS

On 28 March 2014, Mr. Cheng Yang has resigned as executive Director, chief executive officer, chairman, compliance officer and authorised representative of the Company and Ms. Jiang Di has resigned as executive Director and vice president of the Company. On the same day, Mr. Heung Wah Keung (“Mr. Heung”) has been appointed as executive Director, chairman and authorised representative of the Company.

On 7 October 2014, Mr. Heung has resigned as executive Director, chairman and authorised representative of the Company. On the same day, Ms. Li Yee Mei has been appointed as executive Director and authorised representative of the Company.

UPDATE ON DIRECTORS’ INFORMATION

Pursuant to Rule 17.50A of the GEM Listing Rules, changes in the Directors’ information since the disclosure made in the Company’s annual report 2013 are set out as follows:

- (a) Mr. Yip Tai Him, an independent non-executive director of the Company,
- resigned as an independent non-executive director of Wing Lee Holdings Limited (now known as Wing Tai Investment Holdings Limited) (stock code: 876) with effect from 20 June 2014;
 - resigned as an independent non-executive director of iOne Holdings Limited (stock code: 982) with effect from 21 July 2014;
 - was appointed as a non-executive director of Larry Jewelry International Company Limited (a company listed on the GEM of the Stock Exchange (stock code: 8351)) on 1 April 2014;
 - has been re-designated from a non-executive director to an independent non-executive director of Larry Jewelry International Company Limited (stock code: 8351) with effect from 16 May 2014; and
 - resigned as an independent non-executive director of Larry Jewelry International Company Limited (stock code: 8351) with effect from 15 October 2014.

- (b) Mr. Fung Wai Ching, an independent non-executive director of the Company,
- was appointed as an independent non-executive director of Well Way Group Limited (a company listed on the GEM of the Stock Exchange (stock code: 8063)) on 23 June 2014; and
 - was appointed as an independent non-executive director of Mastermind Capital Limited (stock code: 905) on 10 October 2014.
- (c) Mr. Leung Wai Man, an executive director of the Company, was appointed as an executive director of Well Way Group Limited (a company listed on the GEM of the Stock Exchange (stock code: 8063)) on 17 October 2014.

CHANGE OF COMPANY NAME

On 9 April 2014, the Company proposed to change the English name of the Company from “China Media and Films Holdings Limited” to “China Star Cultural Media Group Limited” and the Chinese name of the Company “中國星文化產業集團有限公司” will be adopted to replace “中國傳媒影視控股有限公司” for identification purpose only. Please refer to the Company’s announcement dated 9 April 2014 and circular dated 8 May 2014 for more details. On 29 July 2014, the Certificate of Registration of Alteration of Name of Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong confirming the registration of the new name “China Star Cultural Media Group Limited 中國星文化產業集團有限公司*” of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Artist Management

During the period under review, the revenue contributed by such segment was approximately HK\$4,350,000 (2013: HK\$12,592,000), representing a decrease of approximately 65.5% due to the tough business competition as compared with the period ended 30 September 2013.

The gross profit margin decreased to approximately 27.1% (2013: 28.3%). The stable gross profit margin in such segment was in line with the management’s expectation.

* *For identification only*

Pending Litigation

On 30 May 2011, China Star Management Limited, an indirect wholly-owned subsidiary of the Company, issued a Writ of Summons to claim against Tang's Workshop Limited ("Tang's Workshop") for the sum of HK\$127,500, being the fees charged for the services rendered and material supplied to Tang's Workshop. At the date of this announcement, the litigation has yet to be settled.

Share of Results of Joint Ventures

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition of profits or losses and movements in other comprehensive income. China Star Film Group Limited ("China Star Film Group"), a joint venture, is principally engaged in film production and distribution. During the period under review, China Star Film Group did not have any additional film rights and the share of its losses approximately HK\$630,000 was recorded (2013: profit of HK\$80,000).

China Star Film Group has two films in the preproduction phase. Due to the scheduling of the film casts and revision to the scripts, shooting of these two films has been delayed, and its completion date and the release date of the said films have not been determined.

In early August 2012, Eternity Investment Limited ("Eternity") (stock code: 764), a company listed on the Main Board of the Stock Exchange, became a substantial shareholder of the Company by acquiring an approximately 29.00% shareholding interest in the Company. Given that Eternity has engaged in film distribution business in the People's Republic of China ("PRC") since 2001, the acquisition of 29.00% equity interest in the Company by Eternity presents a good opportunity for the Group to form a strategic alliance with Eternity by leveraging its expertise, network and connections in the film distribution industry in the PRC. After the completion of placing on 15 April 2014 and 17 June 2014, the shareholding interest of Eternity in the Company decreased from 29.00 % to 16.19%. After the conversion of convertible loan notes on 16 October 2014, the shareholding interest of Eternity in the Company further decreased from 16.19% to 15.94%. Eternity is still a substantial shareholder of the Company.

During the period under review, the Group has disposed of the entire issued share capital of nine subsidiaries to an independent third party at a cash consideration of HK\$24.4. On 17 April 2014, the Group has completed the acquisition of China Star Movie Limited. On 23 May 2014, the Group has acquired the entire issued shares in China Star International Movie Limited. With Mr. Heung's resignation as an executive director of the Company with effect from 7 October 2014 and cessation of his involvement in the film production business of the Company, the Directors of the Company consider that the interests of the Company would be better served by re-allocating and focusing its management and other resources to its other business segments. On the same day, the Group has disposed of the entire issued share capital of China Star Movie Limited at a cash consideration of HK\$8,673,258.

Going through the above restructuring and reorganisation of the Group can enable the Company to further develop its business by focusing its management and company's resources on different business segments.

Financial Review

The revenue of the Group was approximately HK\$4,350,000 for the nine months ended 30 September 2014 (2013: HK\$12,592,000), and it was generated from the provision of artist management and film distribution, representing a decrease of 65.5% as compared with the nine months ended 30 September 2013.

Administrative expenses were mainly the staff costs, operating leases and other general administrative expenses of the Group incurred during the period under review. Administrative expenses decreased by 26.2% to approximately HK\$9,052,000 from approximately HK\$12,270,000 in prior period. It was mainly attributed from decrease in expenses on operating leases amounted to approximately HK\$1,122,000 (2013: HK\$3,427,000) and salaries and allowances amounted to approximately HK\$3,213,000 (2013: HK\$5,767,000).

The operating leases, as the rental expenses paid to shareholder, is a facility sharing agreement ("Agreement") dated 30 April 2012 entered into between Golden Island Catering Group Company Limited ("Golden Island"), a wholly-owned subsidiary of Culture Landmark Investment Limited ("Culture Landmark"), and our subsidiary. Pursuant to the Agreement, the aggregate annual fees payable for each of the two years ending 31 March 2014 will be subject to the cap amount of HK\$4,800,000, being the maximum annual amount payable. Golden Island is a connected person of the Company and the Agreement constitutes a continuing connected transaction of the Company.

For details of the continuing connected transaction, please refer to the announcement dated 30 April 2012. The Agreement was expired on 31 March 2014.

During the period under review, loss for the period attributable to owners of the Company was approximately HK\$2,762,000 (2013: loss of HK\$6,925,000), which was mainly attributed from the administrative expenses amounted to approximately HK\$9,052,000 (2013: HK\$12,270,000) and the share of losses of joint ventures amounted to HK\$630,000 (2013: profit of HK\$80,000). However, one-off gain on disposal of subsidiaries amounted to approximately HK\$5,261,000 should have mitigated the loss for the period attributable to owners of the Company.

Future Plans

We are still planning the future developmental strategies for the Group and studying the prevalent market trends. We will remain cautious of the Group's business outlook. However, regardless of the aforementioned, strengthening and developing the business of the Group are of almost importance so as to prepare ourselves for the upcoming challenges and opportunities. Meanwhile, we will continue to identify other appropriate investment opportunities to penetrate into other business sectors.

Event after the Reporting Period

- (a) On 7 October 2014, Dance Star Group Limited (“Dance Star”), a wholly-owned subsidiary of the Company, and China Star Entertainment Holding Limited (“CSEHL”), a wholly-owned subsidiary of China Star Entertainment Limited (“China Star”) entered into the sales and purchase agreement, pursuant to which the Dance Star has conditionally agreed to sell and the CSEHL has conditionally agreed to acquire the total issued and paid up capital and the shareholder’s loan of China Star Movie Limited for an aggregate consideration of HK\$8,673,258 in cash.

Mr. Heung is the chairman and an executive director of China Star and is the former chairman, the former executive Director and former authorised representative of the Company. He is interested in 4,661,203,680 shares of China Star, representing approximately 32.3% of the entire issued share capital of China Star on 7 October 2014. As Mr. Heung is the substantial shareholder of China Star, the CSEHL is a connected person of the Company and therefore the transaction constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As the applicable percentage ratio pursuant to Chapter 19 of the GEM Listing Rules in respect of the transaction exceeds 5% but is less than 25% and the consideration is less than HK\$10,000,000, the transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements and exempt from the independent shareholders’ approval requirement under Chapter 19 and Chapter 20 of the GEM Listing Rules. Mr. Heung, the former chairman of the Company, is a renowned figure in the Hong Kong and Greater China film production and distribution industry and has more than 30 years of experience and in-depth knowledge and well established connection in such industries. With Mr. Heung’s resignation as an executive Director of the Company with effect from 7 October 2014 and cessation of his involvement in the film production business of the Company, the Directors of the Company consider that the interests of the Company would be better served by re-allocating and focusing its management and other resources to its other business segments. Taking into account that (i) after the transaction, the Company will no longer be required to have further capital injection to support the future operation of the China Star Movie Limited and therefore the Company can deploy more resources to its other business segments; and (ii) the consideration is based on the net liabilities of the China Star Movie Limited, which amounted to approximately HK\$4,828,000 as at 7 October 2014, and the amount of the sale loan, which represents a good opportunity for the Company to realise its investments in the China Star Movie Limited, the Directors of the Company consider that the terms of the S&P agreement are fair and reasonable and are on normal commercial terms and that the transaction is in the interests of the Company and the shareholders of the Company as a whole. The disposal was completed on 9 October 2014. Please refer to the Company’s announcement dated 7 October 2014 for more details.

- (b) On 16 October 2014, the outstanding convertible loan notes in the principal amount of HK\$6,200,000 were converted into 14,220,183 shares of the Company at the adjusted conversion price of HK\$0.436 per share.

CONNECTED TRANSACTIONS

Continuing Connected Transaction

Golden Island, a wholly-owned subsidiary of Culture Landmark, as tenant entered into the tenancy agreement dated 30 March 2011 with China Resources Property Management Limited in respect of the lease of the premises (“Premises”) which located at rooms 2506-09, 25th Floor, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong for a term of three years from 1 April 2011 to 31 March 2014.

On 30 April 2012, KH Investment Holdings Limited (formerly known as China Media and Films Holdings Limited), a wholly-owned subsidiary of the Company, entered into the Agreement with Golden Island in respect of sharing of the Premises and facilities thereof. Golden Island has also agreed to provide office supporting services, including provision of receptionist and such other services as may be requested by the Group.

Golden Island is a wholly-owned subsidiary of Culture Landmark and Culture Landmark is the controlling shareholder of the Company indirectly interested in approximately 74.95% of the issued share capital of the Company at 30 April 2012.

Accordingly, Golden Island is a connected person of the Company and the Agreement constitutes a continuing connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

As the annual cap fees under the Agreement for each of the two years ending 31 March 2014 is HK\$4,800,000, whose all applicable percentage ratios are less than 5% on an annual basis, the Agreement is subject to the reporting and announcement requirements under Rules 20.45 to 20.47, the annual review requirements set out in Rules 20.37 to 20.40 and the requirements set out in Rules 20.35(1) and 20.35(2) of the GEM Listing Rules, but is exempt from the circular and independent shareholders’ approval requirements under Rules 20.49 to 20.54 of the GEM Listing Rules.

Golden Island has agreed to provide use of office space and facilities at portion to the Group. The Premises will be used as offices by the Group. The Directors (including the independent non-executive directors) are of the opinion that the Agreement was entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms after arm’s length negotiations between the parties with reference to the prevailing market rates for comparable office buildings in Wan Chai; and (iii) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole. None of the Directors has a material interest in the Agreement.

For the details of the continuing connected transaction, please refer to the announcement dated 30 April 2012.

Connected Transaction

On 14 April 2014, the Dance Star and CSEHL entered into the sale and purchase agreement, pursuant to which the Dance Star has conditionally agreed to acquire and the CSEHL has conditionally agreed to sell the total issued and paid up capital of and the shareholder's loan due by China Star Movie Limited for an aggregate consideration of HK\$4,340,000 in cash. Mr. Heung is the chairman and the executive director of both the Company and China Star. He is interested in 4,661,203,680 shares of China Star, representing approximately 41.5% of entire issued share capital of China Star on 14 April 2014. As Mr. Heung is the substantial shareholder of China Star, CSEHL is the connected person of the Company and therefore the transaction constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

As the applicable percentage ratio under the GEM Listing Rules for the transaction is more than 0.1% but less than 5%, the transaction is subject to the reporting and announcement requirements and exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

The Directors consider that the transaction will enable the Group to further develop its film production business. The acquisition was completed on 17 April 2014. Please refer to the Company's announcement dated 14 April 2014 for more details.

On 23 May 2014, the Group acquired the entire issued shares in China Star International Movie Limited at a cash consideration of HK\$7.8 from China Star Entertainment (BVI) Limited, a wholly owned subsidiary of China Star. As Mr. Heung is the substantial shareholder of China Star, the China Star Entertainment (BVI) Limited is also the connected person of the Company and therefore the transaction constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. As the applicable percentage ratio under the GEM Listing Rules for the transaction is less than 0.1%, the transaction is subject to the reporting and exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules. The Directors also consider that the acquisition will enable the Company to further develop its film production business.

Save as disclosed above, during the period ended 30 September 2014, there were no connected transactions or continuing connected transactions under the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements thereunder.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 30 September 2014, none of the Director, or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME

On 10 June 2014, the Company adopted a new share option scheme (“New Share Option Scheme”) and terminated the share option scheme adopted by the Company on 6 March 2002. The purpose of the New Share Option Scheme is to enable the Company to grant options to the eligible participants (“Participants”) in order to recognise and motivate the contribution of the Participants to the Group.

The scope of the Participants was determined to provide flexibility for the Company to encourage and reward a broad range of the Participants to contribute to the development of the Group. The Board is of the view that the Participants (including employees, directors, supplier, consultants, distributors, agents, customers, partners, joint venture partners, promoter, service providers and advisers to the Group) are persons who may contribute to the growth and development of the Group through their services or investments. The Directors are of the view that the New Share Option Scheme will serve to motivate the Participants to continue to optimise their performance and efficiency for better serving the Group in the future, as well as to attract and retain or otherwise maintain ongoing business or investment relationship with the Participants depending on many factors such as their interest in the shares, their business/working relationship with the Group, and their contribution that has or may have been made to the Group etc.

The details of the New Share Option Scheme were set out in the circular of the Company dated 8 May 2014. During the period under review, no share options had been granted, exercised, cancelled or lapsed under the New Share Option Scheme.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes and employee award plan, at no time during the nine months ended 30 September 2014 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2014, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long positions in ordinary shares of HK\$0.01 each of the Company

Name of substantial shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Eternity	Interest of controlled corporation (<i>Note 1</i>)	146,640,000	—	146,640,000	16.19%
Riche (BVI) Limited	Interest of controlled corporation (<i>Note 1</i>)	146,640,000	—	146,640,000	16.19%
Riche Advertising Limited	Beneficial owner (<i>Note 2</i>)	146,640,000	—	146,640,000	16.19%

Notes:

- (1) Riche (BVI) Limited is wholly and beneficially owned by Eternity.
- (2) Riche Advertising Limited is the beneficial owner of 146,640,000 shares of the Company and is wholly and beneficially owned by Riche (BVI) Limited.

Save as disclosed above, at 30 September 2014, the Company has not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

COMPETING INTEREST

At 30 September 2014, none of the Directors, the substantial shareholders nor their respective associates had an interest in any business which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the nine months ended 30 September 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved thereby instilling confidence to shareholders and the public.

The Company has complied with the code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules for the nine months ended 30 September 2014, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executives) and A.4.1 (specific terms of non-executive Directors).

(a) Chairman and Chief Executive Officer

Under the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the period between 1 January 2014 and 28 March 2014, Mr. Cheng Yang has taken up the roles of the chairman and has been assuming the roles of chief executive officer of the Company. Following the resignation of Mr. Cheng Yang as executive Director on 28 March 2014, Mr. Heung has taken up the roles of the chairman and has been assuming the roles of chief executive officer of the Company. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.

Following the resignation of Mr. Heung as executive Director on 7 October 2014, the Company still looks for appropriate person to fill the vacancy as chairman and chief executive officer.

(b) Terms of non-executive Directors

Under the CG Code provision A.4.1, all non-executive Directors should be appointed for a specific term, subject to re-election. The term of office for non-executive Directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the Directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this Code provision.

(c) Non-executive Directors attending general meeting

Under the CG Code provision A.6.7, non-executive Directors should attend general meetings. Mr. Law Yiu Sang Jacky, being the independent non-executive Director, was unable to attend the annual general meeting and special general meeting of the Company held on 10 June 2014 due to other business commitment.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2014, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, the Company's Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

AUDIT COMMITTEE

The audit committee consists of three members, namely Mr. Yip Tai Him (chairman of the audit committee), Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching, all being independent non-executive Directors. The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and interim report and to provide advice and comment thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. The audit committee has reviewed the third quarterly report and results for the nine months ended 30 September 2014 before proposing to the Board for approval.

By order of the Board
China Star Cultural Media Group Limited
Leung Wai Man
Executive Director

Hong Kong, 12 November 2014

As at the date of this announcement, the Board comprises Mr. Leung Wai Man and Ms. Li Yee Mei as executive Directors; and Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching as independent non-executive Directors.

This announcement will be published on the GEM website on the "Latest Company Announcement" page for at least 7 days from the date of publication and on the Company's website at www.chinastarcmg.com.hk.